

State of Texas

Comprehensive Annual Financial Report

For the Fiscal Year Ended August 31, 2019

**The spreadsheets in this publication are available
in accessible data form (Excel) for the sections below.**

Management's Discussion and Analysis, pages 19-32

comptroller.texas.gov/transparency/reports/comprehensive-annual-financial/2019/analysis.xlsx

Basic Financial Statements, pages 33-194

comptroller.texas.gov/transparency/reports/comprehensive-annual-financial/2019/basic.xlsx

Required Supplementary Information other than MD&A, pages 195-220

comptroller.texas.gov/transparency/reports/comprehensive-annual-financial/2019/supplemental.xlsx

Governmental Funds, pages 221-244

comptroller.texas.gov/transparency/reports/comprehensive-annual-financial/2019/governmental.xlsx

Enterprise Funds, pages 245-274

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Fiduciary Funds, pages 275-292

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Discretely Presented Component Units, pages 293-308

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Statistical Section, pages 309-335

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Acknowledgments

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Special Appreciation To:

All accounting and budget personnel of state agencies and institutions of higher education whose extra time and effort made this report possible.

The State Auditor's Office auditing staff

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Section One

Introductory Section





February 28, 2020

To the Citizens of Texas, Governor Abbott
and Members of the 86th Texas Legislature:

The state of Texas Comprehensive Annual Financial Report (CAFR) for the fiscal year ended Aug. 31, 2019, is submitted herewith. Responsibility for both the accuracy of the data presented, as well as the completeness and fairness of the presentation, rests with the office of the Texas Comptroller of Public Accounts. To the best of my knowledge, the information presented is accurate in all material respects, and all disclosures necessary for a reasonable understanding of the state's financial activities are included.

The reporting approach established by the Governmental Accounting Standards Board (GASB) was utilized. The state also voluntarily follows the recommendations of the Government Finance Officers Association (GFOA) of the United States and Canada for the contents of government financial reports and participates in the GFOA's review program for the Certificate of Achievement for Excellence in Financial Reporting. The State Auditor's Office performed an audit, in accordance with generally accepted auditing standards, of the state's general-purpose financial statements. Their opinion is presented in this report preceding the financial statements.

The State Auditor's Office contracted with Clifton-LarsonAllen (CLA) to perform portions of the federal audit procedures necessary to meet the requirements of Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance).

The federal portion of the Statewide Single Audit Report for the fiscal year ended Aug. 31, 2019, with the opinion expressed by CLA, will be issued separately.

Profile of the Government

This report includes financial statements for the state of Texas reporting entity. Criteria for determining the reporting entity and presentation of the related financial data are established by GASB. The criteria include legal standing and financial accountability. Other organizations that would cause the financial statements to be misleading or incomplete if they were excluded are also included in the reporting entity. Note 1 of the notes to the financial statements provides detail on the financial reporting entity. Note 19 provides a brief summary of the nature of significant component units and their relationship to the state of Texas.

All activities generally considered part of the state of Texas are included in this report. These activities provide a range of services in the areas of education, health and human services, public safety and corrections, transportation, natural resources and recreation, regulation, general government, employee benefits and teacher retirement state contributions.

The management's discussion and analysis (MD&A) in the financial section provides an overview of the state's financial activities, addressing both governmental and business-type activities reported in the government-wide financial statements.

Accounting System and Budgetary Controls

The state's internal accounting controls provide reasonable assurance regarding the safeguarding of assets against loss from unauthorized use or disposal and the reliability of financial records for preparing financial statements. The concept of reasonable assurance recognizes that the cost of a control should not exceed the resulting benefit.

Budgetary control is exercised through expenditure budgets for each agency. These budgets are entered into the statewide accounting system after the General Appropriations Act (GAA) becomes law. All governmental funds are appropriated for a biennium, except for appropriations related to construction, which are appropriated for five years. The GAA becomes law after passage by the Legislature, certification by my office that the amounts appropriated are within the estimated collections and the signing of the bill by the governor. Controls are maintained first at the agency level, with additional control at the fund and appropriation level to ensure expenditures do not exceed authorized limits. Further detail on budgetary accounting for the state, other than the MD&A section, is found in the required supplementary information.

Financial Policies

Fiscal soundness is an unwavering principle that guides the financial policies of the state. The Texas Constitution supports responsible governance by mandating several limitations on the budgeting process. In addition to the certification process requiring passage of a balanced budget in Article III, Section 49a, budget growth and indebtedness are also limited. According to Article VIII, Section 22, appropriations from state tax revenue not dedicated by the Texas Constitution cannot grow faster than state economic growth estimated by the Legislative Budget Board. Payments required for debt cannot exceed 5 percent of the previous three-year average of nondedicated general revenue as provided in Article III, Section 49j.

The economic stabilization fund (ESF), commonly called the "rainy day fund," authorized in 1988 by the Texas Constitution, Article III, Section 49g, is yet another example of prudent governance. The Comptroller may transfer ESF amounts to the general revenue fund to prevent or eliminate temporary cash deficiencies. Any amounts transferred to general revenue shall be returned to the ESF with interest as soon as practicable, but no later than Aug. 31 of each odd-numbered year. Generally, the Legislature may appropriate within the statutory guidelines, by a three-fifths vote of the members present in each house, amounts in the ESF that do not exceed the amount of any unanticipated deficit in a current biennium or anticipated revenue decline during the next biennium. The Legislature may also appropriate any amount from the ESF for any purpose only if approved by at least two-thirds of the members present in each house. The ESF shall receive a transfer, not later than the 90th day of each biennium, from the general revenue fund for one-half of any unencumbered positive balance remaining in the general revenue fund on the last day of the preceding biennium. The ESF also receives transfers, not later than the 90th day of each fiscal

year, from the general revenue fund for at least 50 percent of the 75 percent of the prior fiscal year oil or natural gas production net collections that exceeded the amount of collections in fiscal 1987. The transfer amount of each production tax is calculated separately and must be in excess of the 1987 threshold. The remaining amount is transferred to the state highway fund as directed by the Texas Constitution, Article III, Section 49-g (c-1) and (c-2).

Until the 2019 session, state law required the Comptroller's office to keep much of revenue in the ESF in relatively low-yield investments that barely kept pace with inflation. SB 69 will allow the agency to move up to 75 percent of the ESF into prudent but higher-yield investments that would maintain the fund's purchasing power.

The balance in the fund on Aug. 31, 2019, was \$11.7 billion. The ESF is also discussed in Note 13.

Economic Outlook

Texas has advantages such as relatively low living costs, an attractive business climate, a central Sunbelt location and a balanced mix of industries that have enabled its economy to grow faster than the nation for many years. These advantages remain and should allow the state's economy to continue to grow over the next biennium and beyond. Texas real Gross State Product (GSP) grew at an estimated rate of 3.6 percent in 2019, after growth of 1.3 and 3.5 percent in 2017 and 2018, respectively. Real GSP is expected to grow by a further 2.7 percent in 2020.

After increasing by 5.1 percent in 2018, Texas personal income is estimated to have again grown by 5.1 percent in 2019 and is projected to grow by a further 5 percent in 2020. Underlying this income growth is growth in the Texas population. Recent estimates by the U.S. Census Bureau show that seven of the nation's 15 most rapidly growing large incorporated cities are in Texas. Texas' population is estimated to have grown by

1.5 percent in 2019 and is projected to grow by a further 1.5 percent in 2020 to reach 29.7 million.

As of November 2019, the Texas unemployment rate was 3.4 percent, down from 3.7 percent in November 2018. Over that period, the U.S. unemployment rate fell from 3.7 percent to 3.5 percent. The Texas unemployment rate is expected to average 3.3 percent in 2020, while the U.S. rate is expected to average 3.5 percent. Total Texas nonfarm employment grew by an estimated 2.3 percent in 2019 and is expected to grow by 1.8 percent in 2020.

Texas Industry Performance

Employment in goods-producing industries increased by 4.1 percent over the past 12 months, while employment in service-producing industries grew by 2.4 percent. All three of the goods-producing industries (mining and logging, manufacturing, and construction) increased employment. Employment was also led by a 56,000 increase in construction, which had the highest rate of growth (7.5 percent) among all industries.

Employment growth in the service-providing industries was led by education and health services (up 65,200) and leisure and hospitality (up 50,700). Among the service-providing industries, other services (4.7 percent), financial activities (3.8 percent) and education and health services (3.8 percent) had the largest percentage increases in employment. The information industry was the only industry to experience an employment decline (1.5 percent) over the year.

Manufacturing

According to the U.S. Census Bureau, the value of Texas exports in 2016 was \$233 billion, a decrease of 7.4 percent from 2015. Year-over-year Texas exports increased for the first time in two years in November 2016 and have increased in every month since. As of October 2019, the value of Texas exports was \$326.8 billion, 6.0 percent higher than the corresponding total

of October 2018. Texas exports comprised 19 percent of total U.S. exports in 2018, and that percentage is likely to increase in 2019.

Construction

Total housing construction activity was up over the year. Total single-family building permits issued in the year ending October 2019, were down slightly by 0.4 percent compared to the prior year period. Building permits for multi-family units rose by 28.5 percent.

According to Multiple Listing Service data from the Texas A&M Real Estate Center, the median sales price for an existing Texas single-family home rose 4.8 percent over the last year, from \$229,000 in October 2018 to \$240,000 in October 2019. The inventory of existing homes for sale in October 2019 was 3.7 months, unchanged from a year ago, but a substantial improvement from the post-recession high of 8.5 months in mid-2011.

Mining and Logging

Texas oil production peaked more than 40 years ago in 1972, when calendar year production reached 1.3 billion barrels. Production volumes reached a low of 343 million barrels in calendar 2007. From that low point, oil production has increased steadily, in large part due to the development and widespread use of enhanced fracturing techniques. Calendar 2019 production is expected to have increased by more than 10 percent from 2018 levels, to reach a new record of 1.6 billion barrels. Production is expected to increase further in 2020, notwithstanding current infrastructure bottlenecks and price volatility.

Major Legislative Initiatives

House Bill (HB) 1, the 2019 GAA, appropriated \$118.3 billion in general revenue and \$248.3 billion in all funds for the 2020-21 budget. The GAA also incorporates other legislation and resolutions enacted by the

86th Legislature which affect appropriations, such as HB 3317 and Senate Bill (SB) 500.

Education and Health and Human Services remain as the largest two areas of the budget, appropriated \$95.9 billion and \$84.3 billion, respectively. The Texas Department of Emergency Management was moved in legislation from the Texas Department of Public Safety and created as a service agency of the Texas A&M University System. Funding for the agency is now included in Article III - Education in the GAA.

Under SB 500, lawmakers also allocated \$9.9 billion in supplemental funding for fiscal 2019 and the 2020-21 biennium, in part to pay for certain needs including foster care, Medicaid expenses and Hurricane Harvey-related items. To shore up this supplemental budget, legislators dipped into the state's ESF, the "rainy day fund," for \$6.2 billion - the largest such draw in the fund's history.

The 2019 session of the Texas Legislature also enacted a variety of new laws affecting state revenues and finances. Legislation in the following areas is expected to have significant revenue implications.

School Finance

The major public school finance bill, HB 3, consumed much of the 140-day session. Lawmakers agreed to use state funds to "buy down" \$5 billion in school district property taxes. In general, HB 3 seeks to push the maintenance and operations (M&O) tax rate for school districts down by an average of 8 cents per \$100 of property valuation in 2020 and 13 cents in 2021. Furthermore, beginning in 2021, school districts that see growth in their property values above the statewide average will be required to use revenue derived from any growth above 2.5 percent to further reduce their tax rates.

In all, HB 3 increased biennial funding by \$11.5 billion over the amount that would have been provided under previous law, including \$6.5 billion in new fund-

ing for schools as well as \$5 billion for property tax relief. Salary increases for teachers and other staff will vary based on a new statewide formula, years of teaching experience and the extra local money available in each district.

In addition, school districts now are required to devote 30 percent of any gains in their basic allotment of state funds per student to compensation for teachers, counselors, librarians and nurses. This compensation can include benefits such as insurance premiums. These changes took effect at the start of the 2019-20 school year.

HB 3 also increased the basic per-student allotment from \$5,140 to \$6,160 and increased “weights” for additional funding that consider specific student characteristics such as economic disadvantage and the need for special education services.

HB 3 also includes funding for full-day pre-kindergarten for eligible children; new incentives for college, career and military readiness; more financial support for special education; financial incentives of \$3,000 to \$32,000 annually to local education agencies for high-performing teachers who teach in rural and/or low-income districts; and a reduction in “recapture” funding by \$3.5 billion compared to what it would have been under previous law.

Local Property Taxes

Many other local government entities besides school districts levy property taxes, including municipalities, counties and special-purpose districts that provide a wide variety of public services. SB 2, the most significant property tax bill, addressed taxes levied by these entities.

Since the 1980s, these taxing authorities have been able to increase their M&O taxes up to 8 percent annually without triggering a provision allowing voters to petition for an election. After SB 2’s passage, beginning in 2020 many of them cannot increase their M&O rev-

enue by more than 3.5 percent in a single year without triggering an automatic election.

The new legislation includes some exceptions, however. Most taxing units subject to the 3.5 percent voter-approval tax rate, as well as municipalities with fewer than 30,000 people, can raise an additional \$500,000 annually in M&O revenue without triggering an election, despite the threshold. In addition, junior college districts, hospital districts, certain water districts and taxing units with low proposed M&O tax rates (2.5 cents or less per \$100) are not subject to the 3.5 percent voter-approval rate and can continue increasing their M&O revenue by up to 8 percent annually.

Furthermore, the new legislation allows taxing units to “bank” unused annual tax increases for the three previous years.

Limiting many jurisdictions’ ability to raise M&O revenue without voter approval may reduce future increases in property tax bills.

Teacher Benefits

Lawmakers also took steps in the supplemental budget (SB 500) to shore up the Teacher Retirement System (TRS) pension fund.

The state’s Pension Review Board considers a pension actuarially sound if it can eliminate its unfunded liability in 30 years or less with current contribution rates. The time needed to do so is called the amortization period; at the beginning of the 2019 session, TRS’ was at 32.2 years. To reduce the amortization period, legislators tapped \$524 million from the ESF.

With the passage of the TRS pension reform bill (SB 12), the state’s contribution to TRS will rise from a rate of 6.8 percent of payroll to 8.25 percent annually from 2019 to 2024. In the same period, active employees’ shares will increase from 7.7 percent of salary to 8.25 percent and district contributions will rise from 1.5 to 2 percent. Current TRS retirees also will receive a one-time extra annuity check, or “13th check,” also

funded from the ESF. This will be either for the amount of their monthly annuity payment or \$2,000, whichever is less, at a cost to the state of \$589 million.

The Legislature also made appropriations to TRS-Care, the retiree health care plan, that will stave off a premium increase for plan members in 2020.

Wayfair Decision

Last year's decision by the U.S. Supreme Court in *South Dakota v. Wayfair* overruled prior decisions that a state could impose sales and use tax collection responsibilities only on sellers with a physical presence in that state.

While Texas has a single state sales tax rate, local sales tax rates vary from zero to 2 percent, which could complicate tax remittance and collection responsibilities for out-of-state sellers. With the passage of HB 2153, the Comptroller's office can set an optional local sales and use tax rate that remote sellers can choose to collect rather than the local sales tax rate where the purchase is delivered.

Another new law, HB 1525, requires online "marketplaces" such as Etsy, Amazon and eBay to collect sales and use taxes on sales made by all third-party sellers who sell to Texans through their sites.

Our agency estimates the new laws and rules adopted to implement *Wayfair* will add \$500 million to state coffers annually.

Awards and Acknowledgments

Certificate of Achievement

The GFOA of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the state of Texas for its CAFR for the fiscal year ended Aug. 31, 2018. The Certificate of Achievement is a prestigious national award that recog-

nizes conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The state of Texas has received a Certificate of Achievement for the last 29 years (fiscal years ended August 1990 through 2018). We believe our current report continues to conform to the Certificate of Achievement Program requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

I will continue to maintain a highly qualified and professional staff to make this certification possible.

Acknowledgments

The preparation of this report requires the collective efforts of hundreds of financial personnel throughout state government, including the dedicated management and staff of the Comptroller's Financial Reporting section and Fiscal Management Division; the chief financial officers, chief accountants and staff at each agency; and the management and staff of the State Auditor's Office. I sincerely appreciate the dedicated efforts of all these individuals who continue to strive for improvements that will make Texas a national leader in quality financial reporting.

Sincerely,



Glenn Hegar



State of Texas Comprehensive Annual Financial Report

Elected State Officials

Executive

Greg Abbott
Governor

Dan Patrick
Lieutenant Governor

Glenn Hegar
Comptroller of Public Accounts

Ken Paxton
Attorney General

George P. Bush
Land Commissioner

Wayne Christian
Christi Craddick

Sid Miller
Commissioner of Agriculture

Ryan Sitton
Railroad Commissioners

Legislative

Lieutenant Governor Dan Patrick
President of the Senate

Dennis Bonnen
Speaker of the House of Representatives

Judicial

Supreme Court of Texas

Nathan L. Hecht, Chief Justice

Jeffrey S. Boyd, Justice

John Devine, Justice

Paul Green, Justice

Eva M. Guzman, Justice

Debra Lehrmann, Justice

Jimmy Blacklock, Justice

Brett Busby, Justice

Jane Bland, Justice

Court of Criminal Appeals

Sharon Keller, Presiding Judge

Michelle Slaughter, Judge

Barbara Parker Hervey, Judge

Scott Walker, Judge

Michael E. Keasler, Judge

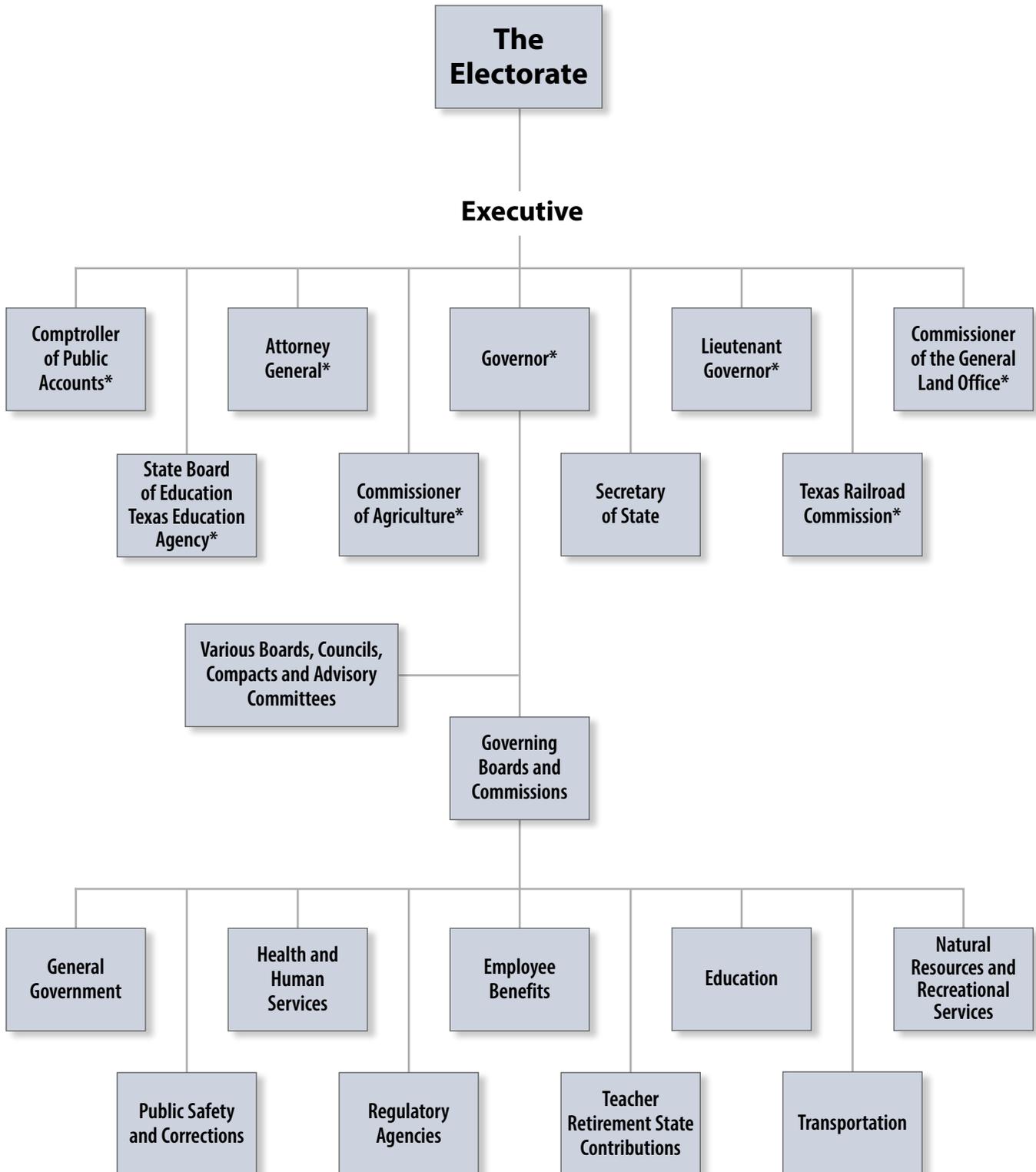
Mary Lou Keel, Judge

David Newell, Judge

Bert Richardson, Judge

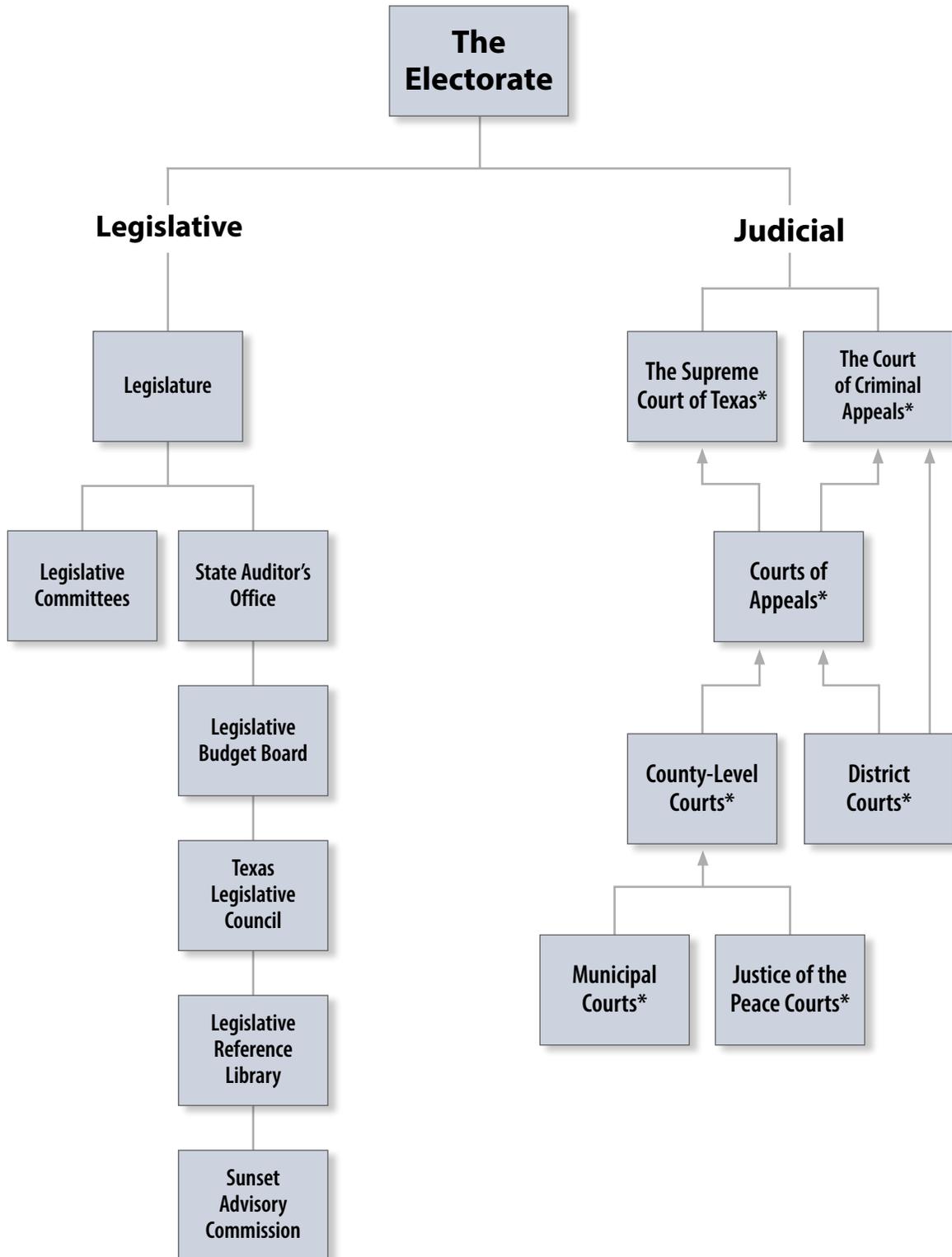
Kevin Yeary, Judge

Government Structure of Texas



* Elected Offices

Government Structure of Texas (concluded)



* Elected Offices



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

State of Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

August 31, 2018

Christopher P. Morill

Executive Director/CEO